FACTSET: callstreet

corrected transcript

PARTICIPANTS

Corporate Participants

Kelly L. Loeffler – VP-Investor Relations & Corporate Communications
Scott A. Hill – Chief Financial Officer & Senior Vice President
Jeffrey C. Sprecher – Chairman & Chief Executive Officer

Other Participants

Richard H. Repetto – Analyst, Sandler O'Neill & Partners
Alex Kramm – Analyst, UBS Securities LLC
Matthew S. Heinz – Analyst, Stifel, Nicolaus & Co., Inc.
Howard H. Chen – Analyst, Credit Suisse Securities (USA) LLC (Broker)
Chris J. Allen – Analyst, Evercore Partners (Securities)
Niamh Alexander – Analyst, Keefe, Bruyette & Woods, Inc.
Brian B. Bedell – Analyst, International Strategy & Investment Group, Inc.
Kenneth B. Worthington – Analyst, JPMorgan Securities LLC
Michael Roger Carrier – Analyst, Deutsche Bank Securities, Inc.
Jillian Miller – Analyst, BMO Capital Markets (United States)
Rob C. Rutschow – Analyst, Credit Agricole Securities (USA), Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to your ICE First Quarter 2012 Earnings Conference Call and Webcast. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session, and instructions will follow at that time. [Operator Instructions] As a reminder, today's conference is being recorded.

I would now like to introduce your host for today's conference, Kelly Loeffler. You may begin, ma'am.

Kelly L. Loeffler, VP-Investor Relations & Corporate Communications

Good morning. ICE's first quarter 2012 earnings release and presentation can be found in the Investor section of our website at theice.com. These items will be archived, and our call will be available for replay.

Today's call may contain forward-looking statements. These statements which we undertake no obligation to update, represent our current judgment and are subject to risks, assumptions and uncertainties.

For a description of the risks that could cause results to differ materially from those described in forward-looking statements, please refer to the company's Form 10-Q, which was filed with the SEC this morning.

With us today are Jeff Sprecher, Chairman and CEO, Scott Hill, Chief Financial Officer and Chuck Vice, President and Chief Operating Officer. We'll conduct a question-and-answer session after our prepared remarks.

I'll now turn the call over to Scott.

Copyright © 2001-2012 CallStreet

Scott A. Hill, Chief Financial Officer & Senior Vice President

Thanks, Kelly. Good morning and thank you all for joining us on the call today. ICE is off to another strong start in 2012 delivering record results including solid revenue growth and double-digit earnings and cash growth.

These results are on top of last year's double-digit growth and continue to differentiate ICE from our competition. I'd like to start this morning on slide four with an overview of our first quarter performance.

As a result of our focus on top line growth in expense discipline, ICE again delivered record revenue and record net income. Against what remains a challenging market and economic backdrop, we continue to deliver growth on top of growth. Revenues in each of our business lines grew including in our futures business where strong revenue capture trends mitigated soft volume. Volatility in natural gas and the continued migration of bilateral oil business into clearing drove strength in OTC energy. And the addition of new clearing members and continued expansion of our electronic capability enabled our CDS business to grow.

Importantly, a growing number of participants are looking to ICE to help them manage their risks and meet regulatory requirements in an efficient manner. So as we continue to develop and expand our existing businesses, we are also constantly developing the next set of opportunities with recent examples including our Brazilian ventures, FX clearing, and efforts around European natural gas and power markets. ICE remains focused on delivering current period growth even as we invest in these longer term enablers of our future growth.

Moving to slide five, I will detail our first quarter results. Consolidated revenues rose 9% over the prior first quarter to $365 million. Operating margins expanded to 62%, enabling operating income to grow 11% to a record $225 million. Net income attributable to ICE rose 15% to a record $148 million and earnings per share were $2.02, up 16% year-on-year. Capital expenditures and capitalized software totaled $15 million, and cash flow from operations rose to $186 million.

Turning to slide six, I will review the components of our consolidated revenue and expenses for the first quarter. As noted earlier, each product category grew during the quarter. Futures revenues rose 1% to a record $160 million. OTC energy revenues increased 19% to a record $123 million and strong natural gas and oil volume, and OTC credit contributed $40 million, the third consecutive quarter of year-on-year revenue growth. Taken together, consolidated transaction and clearing revenues increased 8% to $322 million. Market data revenue grew 24% to a record $36 million as our customer base continued to grow and expand globally.

Let's move to the right side of slide six for a look at our consolidated expenses. ICE's first quarter operating expenses rose 7% to $140 million. We improved operating margin to 62%, compared to 61% in last year's first quarter. Comp and benefits expense rose 10% on increased employee head count which supports our growth initiatives and regulatory reform implementation. SG&A expenses include $2 million related to the cleanup of some UK indirect tax matters which we anticipate will not be a part of our run rate expense in subsequent quarters. And finally, as previously disclosed, we had $3 million of acquisition-related expense reflective of the M&A component of our growth strategy. This amount was in line with the prior year and we expect this expense to again be in the range of $3 million to $4 million in the second quarter of this year.

Disciplined investment remained a core part of our growth strategy and we continue to expect 2012 expense growth in the range of 3% to 6%. We believe that the expense level will continue to support our double-digit earnings growth objective and our strategic initiatives.

Moving to slide seven, I'll walk through our Futures segment performance. While we achieved record revenue for this segment during the quarter, average daily volume or ADV declined 3%. The largest decline came in the WTI crude futures contract following the continued shift by customers to the benchmark Brent contract.

In addition, this year's quarter saw reduced oil market volatility following the first quarter of 2011 geopolitical shocks including the earthquake in Japan and Middle East unrest.

Nonetheless, we recorded double-digit volume increases in Brent, European natural gas, emission, U.S. heating oil and gasoline. We also continue to grow our options complex. Gasoil volume declined modestly from 1Q 2011. This was primarily due to the lower volatility, but also due to supply shortages that reduced physical inventory.

We are working with our customers to develop a global diesel market through the new ICE Low Sulphur Gasoil contract as the physical market begins to move to the lower sulphur content product. We believe the relevance of this new contract will further enhance our leadership position in this market and anticipate the transition to occur over the next year or so.

European Emissions volumes rose 25% from the same period one year ago. This is on the heels of 23% volume growth in all of 2011. The catalyst for emission continues to be Phase III of European Union Emissions Trading Scheme where more industries and companies such as airlines will be required to participate in the market and building on the momentum we have established in this market, last month ICE Futures Europe was awarded the UK auction platform mandate to serve as the venue for auctioning Phase III and EU aviation credits later this year.

Moving to agricultural contracts, we've seen improving levels of OI over the last few months, which has resulted in strengthening volume in many of our Ag contracts. Sugar futures and options volume were off 6% year-to-year in the first quarter, but grew 14% in April, due in part to a slight recovery in the trade financing issues that have impacted that market.

Ag revenues in the quarter generally benefited from strong revenue capture as you can see on slide seven. Rate per contract in the quarter was $2.68 compared to $2.15 one year ago as a result of a price increase in January. This increase reflects the significant enhancement in clearing and trading introduced at ICE Futures U.S. since our 2007 acquisition. Building on our suite of agricultural contracts and at the request of the market participants, we plan to launch corn and soybean futures and options on May 14 at ICE Futures U.S. And in January, ICE Futures Canada, launched the Canadian wheat contract, which we anticipate will gain traction as we enter the growing season.

Finally, due to volatility levels not seen in five years, our equity index and currency volumes were roughly flat for the quarter. The Russell futures contract however has outperformed among U.S. equity index futures year to-date in terms of growth and share gain.

Importantly, open interest across all of our futures exchanges at the end of the first quarter was up 14% year-to-year which supported April average daily volume growth of 21% as was reported earlier this morning.

Turning now to slide eight, I'll review our record OTC performance. Average daily commissions in our energy markets grew 20% to a record $1.9 million. North America natural gas revenues grew 26% over the prior first quarter to $81 million and global oil revenues rose 39% to $15 million in the quarter. In 2011, we added over 260 new OTC energy contracts and we continue to work with our customers to develop new products and clearing services.

In the first quarter, we launched 42 new cleared OTC energy contracts. The contribution from new products rose to $12 million in the quarter, up from $7 million in the prior year. OTC energy open

 Copyright © 2001-2012 CallStreet

interest rose 44% year-to-year to a record 58 million contracts. In April, our OTC commissions were $1.5 million, up slightly from April 2011.

In our Credit Derivatives business, first quarter revenues totaled $40 million, up slightly from last year's first quarter. This included $24 million from Creditex and $16 million from CDS clearing. We have now cleared over $30 trillion in gross notional value of CDS and have open interest of over $1.6 trillion.

Today, we are the only U.S. or European solution to have cleared even $1 trillion in notional value and the only clearinghouse to list single name in sovereign instruments. In total, ICE clears 345 CDS products, which is 200 more contracts than our nearest competitor.

Finally, ICE's CDS risk model is compliant with anticipated Dodd-Frank requirements, including five-day margining and a guaranty fund that provides for the simultaneous default of the two largest members. We continue to await regulatory clearance by the SEC to provide portfolio margining, which the buy-side community has identified as a key catalyst for them to begin clearing CDS at meaningful levels.

In the first quarter, 62% of Creditex's revenues were electronic. And Creditex's joint service offering with Markit, known as Credit Fixings successfully provided settlement services for the auction of Greek sovereign debt. We are finalizing work on the development of our SEF platform for CDS as rules become final. Our experience, technology and customer relationships continue to position us well in the credit markets.

Before moving to my final slide, I'd like to emphasize a very important point about our track record of growth. Our solid revenue growth in the first quarter was driven by strength in OTC energy despite futures volume decline and a soft CDS execution market. We built a business though capable of consistently generating growth on growth without depending on any single product, asset class or business segment. As a prime example, our April revenues grew double-digit despite a pullback in OTC energy due to very strong futures volume. This balanced business model is yet another important competitive differentiator for ICE. I will conclude my remarks on slide nine by highlighting our strong financial position.

In the first quarter, cash flow was $186 million, up 19% from 2011. We ended the quarter with nearly $1 billion in cash, no net debt, low leverage and access to a committed line of credit of $1.8 billion. We repurchased $175 million worth of shares at $113 a share in 2011. Today, we have over $330 million remaining under our current share repurchase authorization. As a result of our strong balance sheet and cash generation, we are well-positioned to continue to invest in key strategic growth initiatives and expand our existing businesses and we will continue to opportunistically repurchase our own shares. As always our investments will be disciplined and driven by a commitment to deliver industry-leading returns on investment that create meaningful value for our shareholders

With that, I will be available to answer your questions during the Q&A. Jeff, over to you.

Jeffrey C. Sprecher, Chairman & Chief Executive Officer

Thank you, Scott. And thank you all for joining us this morning. With record revenues and double-digit earnings growth in the first quarter, 2012 is off to a strong start. In spite of the economic headwinds and as we enter the fourth year of financial reform discussions, ICE's diverse businesses and customer base remains a solid platform for growth enabling us to thrive amid uncertainty. Our strategic diversification has resulted in sustainable growth and earnings consistency.

You can see that playing out already this year. While our first quarter was driven by the OTC segment, double-digit growth in April was driven primarily by strong futures volume. We continue to focus on solving the complex problems that come with change so that our customers can do more business. We also recognize that as a company, we are not finished growing into our opportunity set.

One example is supporting compliance with financial reform. This is an area where we've already added value. With rising demand for risk management and particularly in the area of commodities, ICE today is probably the best positioned exchange to support the continuing evolution of global markets. This is why I've been spending a lot of time in conversations with customers that understand their needs and also spending time with policy makers to help them understand our customers.

So, those are the two things I'd like to cover this morning, ICE's responsiveness to financial reform and the expansion of our futures and OTC product sets. Last month, the CFTC finalized certain of its rules on swap related definitions under the Dodd-Frank Act. More information on EMIR and MiFID II policies were recently published in Europe. And Singapore published a rulemaking draft for comment. Each step in the regulatory rulemaking process is providing more visibility for market participants to adjust their businesses and we are working to support them.

While a great deal of regulatory work remains, you can see on slide 10 that ICE is working to finalize a number of compliant platforms and systems. We are developing Swap Execution Facilities for energy and credit. And we delivered a Swap Data Repository for regulatory approval and testing for which we now have over 250 firms enrolled. We recently announced the results of our program to manage high frequency traders. Our innovative program encourages efficient trading and has proven extremely effective in insuring high quality markets.

During the quarter, ICE announced the expansion of our OTC clearing services into the market for non-deliverable forward foreign exchange contracts. We signed agreements with 10 of the largest global players in the foreign exchange space, each of whom has made a commitment to the new clearing venture. Over the last year, we developed this clearing solution alongside dealers, buy-side, FX trading platforms and connectivity providers to provide straight-through processing support.

We will initially clear seven NDF contracts. This FX clearinghouse will have a dedicated guaranty fund and our customers are in the final stages of testing the margin calculators and other processes right now. We're seeing broad interest from participants that wish to voluntarily clear well in advance of regulatory mandates.

And for the broader area of OTC execution, we've worked closely with market participants to solve for execution certainty and counterparty credit checks by introducing our Plus One workflow that will be made available to SEFs.

In the same collaborative practical way that ICE created the industry's leading CDS clearing solution, today we clear the majority of clearable CDS at $30 trillion and in cumulative gross notional value – notional value as of last week. We anticipate that ICE Clear Credit will be designated as a systemically important financial institution in the United States and we believe we're very well prepared for that based on our leadership in swaps clearing. We worked extensively with the Fed and with the CFTC and SEC. These are just a few examples of the solutions and the experience that we have supporting our customer needs as it relates to regulatory change.

I'd now like to talk a little bit more about how we are expanding our product set. In 2011, half of ICE's revenues came from outside the United States. So year-to-date, we've announced new products ranging from U.S. Agricultural contracts to Asian oil swaps. We rolled out dozens of new cleared products already this year. And with a record $12 million in new quarterly product revenue, you can see that these product introductions continue to be meaningful.

In our North American natural gas markets, we had record volume in the first quarter. Despite prices reaching 10-year lows, volatility was strong and it drove robust trading. We are now in the seasonally quieter shoulder months of April and May, but we continue to see solid demand for hedging and trading of U.S. natural gas.

Please move to slide 11, let me update you on our oil markets. In April, ICE Brent crude was the most heavily traded crude futures contract in the world. Brent continues to grow in its role as the most widely relied upon oil benchmark, pricing approximately 70% of international oil. Brent derives its physical price references from contiguous deepwater oil fields off the coast of Norway and the UK. This contract has continued to evolve since 1990 and as changes take place in the physical market, the role of our exchange is to ensure that our futures contract properly reflects this underlying market.

So following extensive consultation with the industry last year, ICE Futures Europe created the Brent NX contract to reflect the extension of the physical price assessment window. We anticipate growth in the Brent NX volume in the back half of this year as we move closer to the December contract, which is the first monthly contract that we list.

In April, Brent futures and options volume increased 43% and reached a new open interest record. Volume in Brent options were up roughly fivefold in April compared with the prior year. And while the Brent/TI spread may temporarily narrow with the reversal of the Seaway Pipeline, we believe that we will continue to see solid growth in Brent, whether or not the active trading of the Brent/TI arb returns to our market any time soon.

Our Gasoil contracts which served as the global benchmark for the middle distillate and diesel market, has overtaken U.S. heating oil in trading volume primarily due to the increasing importance of hedging transportation fuels. The physical diesel market is three to four times larger than heating oil, which has increased the relevance of gasoil as a hedging device. The Gasoil contract serves as the basis for an active over-the-counter swap and spread market against other refined products, like jet fuel and heating oil and is the pricing basis for imports from the Middle East, Asia and Europe. ICE's share of middle distillate futures trading grew from approximately 30% in 2001 to roughly 70% today.

Moving to slide 12, I'll update you on our newer initiatives. We continue to build out trading and risk management infrastructure in Brazil, where we are supporting the development of local markets that are transparent and liquid. One area of focus is our involvement with Cetip. We announced last week that our two companies are working together to develop and launch a Brazilian fixed income trading platform.

The platform will launch later this year and it will bring automation and other efficiencies to the fixed income market. Also in Brazil, volumes on our BRIX venture for trading OTC energy continue to rise at a healthy rate. We now have approximately 100 firms that are enrolled on that platform. Another new initiative relates to our global positioning in commodities. At the request of market participants, we will launch corn and soybean futures contracts on ICE Futures U.S.

With the top two commodity exports from U.S. to Asia being cotton and corn, this will round out our agriculture markets with key contracts. Because we can introduce contracts at low incremental cost, this is a natural product extension for the Exchange and it's based on customer demand. The launch follows the introduction in Canada of wheat futures on ICE Futures Canada in January, and it builds on our existing suite of agricultural products including sugar, cotton, canola and coffee.

FACTSET: callstreet
corrected transcript

Last week, the [ph] Griffin's Market Group (sic) [Griffin Markets Group] (22:33), a new firm that's founded by former senior executives from Spectron Group, announced that it will launch a multilateral trade facility or MTF in Europe with trading technology that's being provided by ICE. The management team at Griffin has deep experience in the European OTC gas and power markets. And they will launch a firm under the MTF designation within the changing European landscape.

Griffin expects to begin in the third quarter of this year, subject to approval by the UK Financial Services Authority. Our venture with Griffin follows on our past decisions to provide technology to NGX for bringing transparency to the Canadian physical natural gas markets, to interdealer broker ICAP for use in electronifying the European oil swaps markets, to the coal industry platform, globalCOAL, for trading coal futures contracts in Europe, to the BRIX exchange for trading Brazilian electric power, to McGraw-Hill Platts for assessing the price of global oil markets and to Cetip for improving the processing of the Brazilian fixed income markets.

Our robust technology and infrastructure capabilities are valuable competitive advantages, which is why we provide our technology to third parties on a targeted basis. When we look at entering new markets, we make a buy versus build decision and if we can find entrepreneurs that are more likely to be successful building a business than ICE alone, we back them with our technology under terms that are consistent with our long-term goals and our long-term revenue model. This idea of providing entrepreneurs with technology for startup initiatives, follows for example, the successful use of this strategy providing technology to the European Climate Exchange, which we acquired in 2010 and which for years has been one of our fastest growing businesses.

We continue to grow by leading with our strengths across global exchanges, OTC markets and clearinghouses. These businesses are delivering top line growth and our diversity is a strategic advantage. We remain focused on our 2012 double-digit earnings growth goal and we began this year by delivering earnings that were up 15% on the first quarter on single-digit revenue growth. Our top line revenue growth accelerated in April with double-digit growth, giving us confidence that our strategies remain sound.

In our annual shareholder letter this year, I posed the question, what is our business? While a basic question, in a dynamic environment, this question is more important than ever. And having delivered the best revenue and best earnings quarter in the company's history, we cannot rest on this success. That's why this year we've already launched the Swaps Data Repository, announced the FX clearing initiative, the Cetip fixed income platform, the Griffin Energy MTF, the new grains contract and dozens of new contracts in our core markets. We cannot and have not waited for an economic rebound to deliver results.

To conclude, I'd like to thank our customers for their business in the first quarter. And I'd also like to send my best wishes to Craig Donohue on his retirement. And let's hope that he didn't get up early this morning to listen to this call. And finally, I'd like to thank the ICE team for delivering what is the best quarter in the company's history.

So I'd now like to turn the call over to the operator to conduct the Q&A session and Scott, Chuck, and I will be here glad to take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Rich Repetto with Sandler O'Neill.

<Q – Richard Repetto – Sandler O'Neill & Partners>: Yeah, good morning, Jeff and Scott, and congratulations on another record quarter.

<A – Jeffrey Sprecher – IntercontinentalExchange, Inc.>: Thank you.

<Q – Richard Repetto – Sandler O'Neill & Partners>: I guess the first question, Jeff, and we got to ask it on the OTC energy commissions, can you give us a little color on the $1.5 million per day? Is that the trend from the last quarter? I know it was $2 million in January, or plus $2 million in January, is this something seasonal or is this just – could you just give us a little bit more background on what you know about – behind the number?

<A – Jeffrey Sprecher – IntercontinentalExchange, Inc.>: Sure, it's always hard to predict volume as you know that and you're in the business of trying to do that unfortunately. The first quarter obviously started off very strong as natural gas in the United States broke below $2, I think at that point, you had a lot of people that had shorts on the market and had been riding the pricing down from $14 and they decided to take their money off the table. But what we saw after that trend was that at this low price, the daily movement of natural gas on a percentage basis is pretty high. And so you have a relatively volatile commodity even though the absolute price is low. We are now in the shoulder months where trading is normally soft. We are up year-over-year, so there's still growth in these markets.

We have high hopes that volatility is going to continue for a number of reasons as we move into the typically more robust summer season. First of all, we're going to be moving into the hurricane season. We haven't had hurricanes that have moved through the Gulf of Mexico for the past few years. But the April, October, APOC spread which is a commonly traded shoulder month – shoulder month spread had one of the highest delta prices that we've seen in long time.

So the market is expecting for gas prices to rise as we go through the summer. Having that expectation is a good thing, because it means somebody will be right and somebody will be wrong and I suspect it will create volatility. And you couple that with the potential or not for hurricanes and I think we could see a continued volatility and hedging and trading going on there. I would also mentioned to you that we've seen a number of analysts including Goldman Sachs come out and say longer term trends for natural gas is for upward price.

So given that you have those view – whether they are right or not, given that you have those views in the market, it will mean that people will be taking trading positions and all of that should lead to more volatility which ultimately should lead to more volume for us.

<A – Scott Hill – IntercontinentalExchange, Inc.>: And Rich, just at the risk of being a little bit defensive too, because I've watched all the notes fly out since we started the call about great quarter, but OTC at $1.5 million. I'd remind people that OTC was good in the first quarter and futures were a little bit soft and we grew 9% and double-digit earnings. We remarked, both Jeff and I on the call that despite OTC being at $1.5 million which is growth year-over-year that we had 21% volume growth in our futures business and grew double-digit revenue in April. So, we don't actually manage the business to one number and certainly not the OTC number as the sole metric. We manage the business as a whole and we've built a business that grows despite any single business on a constant basis.

You look at the earnings performance across the competitors for this quarter and you would be hard-pressed to find anyone else who put up any growth at all much less growth on top of growth. So, while we do recognize the importance of the OTC energy business and we are happy to have a great January and February in that number, we don't run the business just along OTC energy lines and we feel pretty good about the first four months of the year.

<Q – Richard Repetto – Sandler O'Neill & Partners>: Okay. Your points are well taken, Scott. Just the one follow-up, Jeff, you're known for your innovation and you've spent I think probably more time sort of outlining your OTC initiatives on – in slide 10. I guess the one question would be can you give us the revenue model, where you see the revenue opportunities in the things that you're doing? And just the basic general revenue model from any of the initiatives you think are most important?

<A – Jeffrey Sprecher – IntercontinentalExchange, Inc.>: Yeah, sure. First of all we recognize that the earnings power in this company is to have variable revenues against fixed expenses and that we need to manage those expenses and so on any initiative that we do, we are not particularly interested for example in licensing technology or software for some fixed fee; that is just not our model. We want to be market participants. We tend to do best in businesses that we can help create as startup businesses because we've been very, very good at developing new markets and we have great relationships with customers. So on all the things that I mentioned whether it's the new clearing for FX or whether it's helping Griffin move into the OTC gas and power space in Europe or whether it's in Brazil in both energy and fixed income, all of those are areas where we have done licensing deals that are consistent with our model of driving earnings growth.

I think all of them are important and largely they are – you can put them all under one umbrella which is there's an over arching trend of large institutional traders wanting more automation. They want to rely on technology that they know and understand. There is a movement of business towards the good incumbents that are in this space. And some of it is being driven by regulation and much of it, however, is being driven by cost control in a world where capital efficiencies are becoming king.

So we're quite excited. This is quite a portfolio and as Scott mentioned in his prepared remarks, we continue to invest in this business. We continue to have a lot of new initiatives that are going on inside this firm that we hope we'll be able to talk about on future calls, because the opportunity set during this time of change is unbelievably robust.

<Q – Richard Repetto – Sandler O'Neill & Partners>: Thanks, Jeff, and congrats again on the quarter.

<A – Jeffrey Sprecher – IntercontinentalExchange, Inc.>: Thank you.

Operator: Our next question comes from Alex Kramm with UBS.

<Q – Alex Kramm – UBS Securities LLC>: Hi, good morning.

<A – Jeffrey Sprecher – IntercontinentalExchange, Inc.>: Morning.

<A – Scott Hill – IntercontinentalExchange, Inc.>: Morning.

<Q – Alex Kramm – UBS Securities LLC>: Wanted to start off on expenses actually. It seems like they came in a little bit higher than what we and most people expected. I obviously understand you had a really great quarter year in the 1Q and maybe on the comp side maybe you already accounted for that a little bit more, but just wanted to make sure the – your guidance is unchanged of 3% to 6%. If I annualize the run rate, it seems like there should be a decline coming over the course of the year. So, maybe, Scott, you can just flesh it out where there are areas that maybe you will see paring back a little bit or whether it was upside in this quarter?

<A – Scott Hill – IntercontinentalExchange, Inc.>: Yeah, one of the things I mentioned, Alex, in my prepared remarks, I think relative to most of the models that you guys have out there, the miss on $140 million was $2 million. And I mentioned in my prepared remarks that we had some cleanup around some UK indirect tax items in SG&A that are not reflective – not reflective of our run rate expense. So I think basically to the extent you had a model that suggests we miss by $2 million or $3 million, it's that one-time item that drove it and it's not reflective of where we'd be on a run rate. I reiterated the expense guidance range, because we are very comfortable as we sit here at the beginning of May that we will deliver on that. And as we've said often, that mid single-digit expense growth, 3% to 6% will support a strong top line and double-digit earnings growth.

So I feel pretty good about the expense coming out of the quarter. The one line in terms of growth that was a little bit higher as well was around the comp and benefits line. As you guys know, we are making investments and building out our clearinghouse in Europe and building out our compliance function and in building out all the various technologies to address the many opportunities that Jeff just alluded to.

So overall, setting aside the $2 million of SG&A that won't be in the run rate going forward, I feel pretty good about the way we continue to manage our expense base.

<Q – Alex Kramm – UBS Securities LLC>: Okay, good, thank you. And then just going to ICE U.S., it seems like a lot of things happening there right now with the pricing changes and also the introduction of corn and soybean. So maybe on the second part, you mentioned customer demand was driving that. So maybe you can flesh out a little bit more of what exactly these customers don't like in the common market, what you think your value proposition is to add that? And how quickly you think that that could actually ramp up when you talk to your customers? Thanks.

<A – Jeffrey Sprecher – IntercontinentalExchange, Inc.>: Sure. Look we know when you step back, the whole thing sounds kind of daft, but the reality is that we have just been inundated by customers that have asked us to do this. We have a current agriculture business as you know and so as we've run that business and gotten to know people and our relationships have deepened, we just see more and more large agribusiness firms that are dissatisfied with the current offerings and there are a number of things and I don't want to go through them, because I don't want to lose our competitive advantage. But suffice to say that even given the difficulty of competing with incumbents in this space, particularly good incumbents, we really feel that there is an opportunity here.

And we have seen, for example, the growth of our U.S. gasoline and U.S. heating oil futures, which are lookalike contracts and have been surprised by our ability to carve out market share. We probably have about a 10% share in each of those contracts. And because of the low cost of introducing contracts, that's all highly marginally efficient revenue for us. And so, we see the same opportunity to work with our customers here. If it turns out that all of the shortcomings of competitors are changed and we don't get a lot of volume, we really believe that working deeply with our customers to solve problems is at the root of our success and we'll put a little notch on our belt that they owe us one and hopefully, it will inure to benefit at some other point in time, but net-net, we're a customer-driven company and customers are demanding this from us.

<Q – Alex Kramm – UBS Securities LLC>: All right, very good. Thank you.

Operator: Our next question comes from Matthew Heinz with Stifel, Nicolaus.

<Q – Matthew Heinz – Stifel, Nicolaus & Co., Inc.>: Hi, good morning.

<A – Jeffrey Sprecher – IntercontinentalExchange, Inc.>: Good morning.

<A – Scott Hill – IntercontinentalExchange, Inc.>: Good morning.

FACTSET:callstreet
corrected transcript

<Q – Matthew Heinz – Stifel, Nicolaus & Co., Inc.>: You saw a strong jump in the market data this quarter, which seems to confirm the underlying growth in your customer base and really two things, one just wondering if there was any price change there that may have helped? And then secondly, what's kind of the historical lag time you've seen between the growth of data in the user base, and then their participation in your markets?

<A – Scott Hill – IntercontinentalExchange, Inc.>: So, yeah, I'll take that. So we definitely have seen consistently over the last number of quarters very strong performance in our market data business. As we've alluded to a number of times on the call that there are metric – number of trading IDs has been trending up, number of customers who log on to the platform have been trending up. All of these are very good leading indicators and along with the growth NOI, give us confidence, that we'll continue to be able to grow the business. We have continued to adjust our pricing model in data and did again this quarter, to reflect the growing demand and the additional content that we build into the product that we sell, but I would suggest you that a larger driver as you indicated, continued growth in the interest in our markets.

I'd be hard pressed to tell you there is a one quarter, or two quarter or three quarter lag in terms of when the market data growth translates directly into volume, but I can tell you that there is a strong correlation between the data growth that we've seen and the volume growth that we also see. So, it's not a one quarter, two quarter lag answer, but it clearly is a leading indicator to go along with the other metrics that I mentioned.

<Q – Matthew Heinz – Stifel, Nicolaus & Co., Inc.>: Okay, that's helpful, thanks. And then as follow-up, we saw some growth in the CDS brokerage this quarter which was nice to see but then kind of a [ph] lull (39:46) in the clearing. Can you just speak to the trends you're seeing there in the CDS business and whether there is still an expectation of a pickup on both sides of the business as the SEF rules are finalized?

<A – Scott Hill – IntercontinentalExchange, Inc.>: Yeah, I mean the CDS clearing business is actually up on a year-over-year basis, but it did slow a bit from the fourth quarter. It's not unusual. You get a lot of holidays in January, not a lot of volume pickup. So, we still feel pretty good about that business. We continue to add new members into that business and we are seeing clearing revenue increase from them on a year-over-year basis as well. We continue to launch new products.

We recently launched the Latin American sub and ICE Clear U.S. So, feel good about that business. The one area where we continue to work very closely with our customers is on the buy side. As I mentioned in my remarks, one of the key catalysts that we are looking for is the commingling order from the SEC. We've been told by the buy side community that that is a key catalyst for them to begin clearing. I mean they obviously have started to dip their toe in the CDS clearing water a bit. But none of them have started to clear in any meaningful way and to a large extent that's because right now we can't offer them the most efficient clearing that they need via their portfolio requirements.

So, I feel pretty good about the CDS clearing business, the product offerings that we have, the margin models that we've got, the buy side interaction that we're seeing and frankly I think that the opportunity, a big part of the opportunity is still in front of us with those buy side customers and new members moving on. With regards to the Creditex business, that to me is really a story about what we are doing on the electronic side of things. The D&A business continues to perform very well. We continue to see more – more of the voice business happen around our screen. I think I mentioned in my remarks, it was 62% electronic in the quarter, which is up from 55% in the prior year.

So that's really the story, we – our strategy has been and remains is to stay relevant, to stay a leader in the key products in that field and then as the SEF definitions develop, as the

Copyright © 2001-2012 CallStreet

electronifications continue, to merge the very strong voice broker business we've got with our very strong technology background to position us as the SEFs start to take off, as that market starts to recover.

So overall, the CDS business was a slight contributor to growth in the quarter and we feel very good strategically about where we're positioned as that market starts to turn.

<Q – Matthew Heinz – Stifel, Nicolaus & Co., Inc.>: I appreciate that color. Thank you.

Operator: Our next question comes from Howard Chen with Credit Suisse.

<Q – Howard Chen – Credit Suisse Securities (USA) LLC (Broker)>: Good morning, everyone.

<A – Jeffrey Sprecher – IntercontinentalExchange, Inc.>: Good morning.

<A – Scott Hill – IntercontinentalExchange, Inc.>: Good morning.

<Q – Howard Chen – Credit Suisse Securities (USA) LLC (Broker)>: Congrats on the strong quarter. Jeff, with respect to BRIX, you noted the early success and having signed on approximately 100 clients. Is that better or worse than you hoped for and how are you and how should we be benchmarking the success there?

<A – Jeffrey Sprecher – IntercontinentalExchange, Inc.>: Thanks for the question. It's amazingly great. We went into a market that was not developed at all and helped to organize standard contracts, standard trading agreements and now electronic transparency. There were a lot of people that were resistant to that change, because they made money under the old system. So the fact that it has so quickly taken hold I think is just amazing.

The next – what we are doing right now is trading physical electric power between market participants that have supply and demand electric power. That market will we believe grow and we can take the indices that we are now producing which are increasingly being viewed as the market price and help the market create derivatives around those that would be cash settled and ultimately cleared. So that is the trend of that business. It follows the trend of what we did in the United States in the early days of ICE, but I would tell you that it's moving very, very quickly and seems to becoming institutionalized very quickly.

It gives us some confidence as we move – as we work with Cetip on a similar vein in the fixed income and bond markets that we hopefully will see similar success particularly given that Cetip was a fixed income bank and dealer consortium and at its formation and those people are very close to the company and many of them are still in the boardroom and so working with Cetip management on exactly how that market will evolve.

So we have high hopes for Brazil and it's been a very good emerging market for us.

<Q – Howard Chen – Credit Suisse Securities (USA) LLC (Broker)>: Great, thanks, Jeff. And my follow-up, you all continue to be pretty constructive on the organic opportunity set for ICE. Can you just talk about how you're seeing the M&A landscape today and what's your appetite to do a sizeable acquisition? Thanks.

<A – Jeffrey Sprecher – IntercontinentalExchange, Inc.>: What do I say? We are sitting on a lot of cash and – and we have very high expectations for when we invest cash on behalf of our shareholder that it should have a significant return. And if we can't find those opportunities then we owe it to our shareholders to return the capital so that they can go find significant returns. And so that's how we're thinking about it. I have suggested to you all on past earnings calls that I think there is a number of assets in the market that have been mispriced. We're starting to see some

Copyright © 2001-2012 CallStreet

pricing – downside pricing pressure on certain public companies who are starting to see the market really thinking seriously about financial reform and what really is a Swap Execution Facility and who really is going to be able to clear OTC business and what are these Swaps Data Repositories and what pipes are really going to get used as the OTC markets migrate on to more transparent platforms.

So you're starting to see a rationalization in price, which I suggested that you would see. And I think there is a ways to go on some companies yet, and so we think there may be opportunities – I think there were companies that were mispriced to the upside and the expectations there may be companies mispriced to the downside at certain moments in time and we would like to be opportunistic if those opportunities came along. Otherwise, we will return the capital and we're letting that play out.

<Q – Howard Chen – Credit Suisse Securities (USA) LLC (Broker)>: Okay. Thanks for taking the question.

<A – Jeffrey Sprecher – IntercontinentalExchange, Inc.>: Thank you.

Operator: Your next question comes from Chris Allen with Evercore.

<Q – Chris Allen – Evercore Partners (Securities)>: Good morning, guys.

<A – Jeffrey Sprecher – IntercontinentalExchange, Inc.>: Good morning.

<Q – Chris Allen – Evercore Partners (Securities)>: Couple of questions. One, just on the NDF-FX clearing, which you launched now with the CME, do you see other opportunities within FX for clearing or is it – that could be somewhat limited because of the existence of the CLS Bank over time?

<A – Jeffrey Sprecher – IntercontinentalExchange, Inc.>: That's a very good question. And I think the market itself is trying to figure that out. The initial part of the market will be NDFs and options which, right now are specifically required by Dodd-Frank. The Fed under Dodd-Frank exempted a large part of the cash market from being cleared under Dodd-Frank, but I shouldn't say that – they put out a paper suggesting they would exempt it and there's still a lot of debate and discussion about whether or not government itself is going to push more of the FX market into clearing. I think there is obviously a debate going on in Europe about the FX markets and the OTC markets in general and how they will be traded and cleared.

And so we would expect that for that to become more known over the next year and it may possibly include larger segments of the market to be cleared just from a regulatory perspective. Taking regulation off the table, as people become more capital constrained, as efficiencies in clearinghouses are – continue to be developed, particularly with things like Scott's talking about on portfolio margining, fine tuning of credit models which we've been doing in our CDS clearinghouse and the like, I think there is going to be a trend toward more clearing from a voluntary standpoint. And you may see a broadening of the footprint of FX, and I think CLS will continue to evolve in that case and work very closely with those clearinghouses that are taking on more of that business.

<Q – Chris Allen – Evercore Partners (Securities)>: Got it. And then just one follow-up. I mean looking at your platform, obviously a lot of growth opportunities within the existing product set ad it provides a nice balance as we saw in the first quarter, and now again in April. I mean how do you think about the growth opportunities organically within your existing asset classes or do you think there is need to expand to other asset classes to provide additional balance and growth over the long term?

<A – Jeffrey Sprecher – IntercontinentalExchange, Inc.>: It's a good question, because we are a public company and because we are owned by shareholders that expect us to grow. The reason that the word growth is mentioned in our prepared script a number of times is very calculated because it's on the mindset of us as managers that we have an obligation to seek out growth for our owners. And, so we do think that our core business has really got a lot of continued opportunity. It is – these commodity markets are some of the oldest trading markets in the world and they have customs and practices that date back for hundreds of years.

And so changing behavior is a slow process and however you can see the trend for more than 10 years that we have been at it continues to grow. But then we do look at where do we have a footprint geographically, where do we have customer relationships, where do we have technology, where are our competitors missing opportunities that we could differentiate ourselves? We have the luxury of being – of growing the top and bottom line right now and so we are investing in a lot of new initiatives and some will be successful and some I suspect will not and however that's the way entrepreneurship works. And so we do have a lot of other asset classes, a lot of other geographies, a lot of other technologies, like moving into the bond business for example, that we think we can exploit and we have the luxury to do that and I suspect that our shareholders are demanding that.

<Q – Chris Allen – Evercore Partners (Securities)>: Thanks, guys. I will get back in the queue.

Operator: Our next question comes from Niamh Alexander with KBW.

<Q – Niamh Alexander – Keefe, Bruyette & Woods, Inc.>: Thanks for taking my questions. On the ICE Clear Credit thank you for the clarification, Jeff. You said earlier you expect the ICE Clear Credit to be systemically important. Can you expand a little bit on how should we think about that maybe from additional capital? Do you expect that there will be some liquidity ratios? Is it going to be ICE Clear Credit specifically, that entity, or will there be some implications for ICE Group as well in terms of financial limitation?

<A – Scott Hill – IntercontinentalExchange, Inc.>: I think, Niamh, that some of that is still yet to be decided in terms of what it would mean to be a SIFI. I think some of the things that are fairly clear is an expectation that you will be able to cover for the simultaneous default of the two largest clearing members, which we have already done; an expectation that you will have a relatively cash-oriented set of margin and guaranty fund holdings which we've already got; that you'll have to manage towards a five-day holding period, which we already do.

And then I think to your question, our expectation is it will be entity specific. So it will be ICE Clear Credit, but we feel like we got a trial run of what being a SIFI would mean as we launched ICE Trust under the supervision of the Fed a few years ago. And what that basically meant was not only were they interested in the specifics of how ICE Trust was run, now ICE Clear Credit, but they were also interested in the corporate services that were provided to ICE Trust. What's your disaster recovery plan? What's your business continuity plan? What's your internal audit plan? And so we had a number of discussion under that review that were really specific to the corporation.

So I don't think there is any ICE level capital requirement that's likely to exist. As I said, there is still not full clarity with regards to what additional liquidity or capital may be required. There'll be more operational capital that's required. We've already moved from six to 12 months, so we're really already there. But again, I don't think it will bleed too much into the corporate level from a capital standpoint, but from a business processes, business control standpoint, there's no question that the supervision will look through into the providers of that service which is the parent.

<Q – Niamh Alexander – Keefe, Bruyette & Woods, Inc.>: That's really helpful. Thanks, Scott. And then...

FACTSET:callstreet
corrected transcript

<A – Jeffrey Sprecher – IntercontinentalExchange, Inc.>: Niamh, I know it's a scenario that you're interested in from hearing you on other calls and other notes. One thing about ICE is that I have never let Scott have this company be rated and I have never let the company issue public debt. We could have a lower interest rate component in this company if we did, but because we run clearinghouses, I personally think it's a bad idea. The ratings agencies do look at the subsidiaries in rating the parent. We can argue whether that's fair or not. But as a result of that, we have not wanted to put our corporate debt at risk and so all of the debt that we have done to date has been through banks and that's what we continue to do.

<Q – Niamh Alexander – Keefe, Bruyette & Woods, Inc.>: That's very helpful. Thanks, Jeff. I appreciate the color there. I guess talking about debt and cash capital on a different subject, help me think about how do you appeal to targeted acquisition shareholders maybe when there is a bigger, more expensive and more cash rich buyer. How do you go about appealing there considering that – well, you have your bank debt line, but one, maybe you don't want to pay as much but you have certainly other things to offer.

<A – Jeffrey Sprecher – IntercontinentalExchange, Inc.>: Well, that's a good question. I think generally speaking you've seen a lot of failed acquisitions in the past couple years where not every constituent was considered in putting the deal together and constituents mean not just shareholders, but customers and regulators. And so, we've been very good and very thoughtful about the deals we've done, about threading the needle and finding a balance between rewarding the target shareholders, but also making sure that the end users of the businesses and the regulators and our shareholders also have upside, and that's the challenge and skill I guess of being successful in M&A.

Certainly, there are businesses where the high price is the winner, but those tend to not be businesses that ICE goes after. We tend to go after businesses where our opportunity set in terms of providing technology, in terms of providing clearing, in terms of providing global regulatory support and distribution are meaningful to the companies that we acquire.

<A – Scott Hill – IntercontinentalExchange, Inc.>: Yeah, [indiscernible] (56:14) Niamh, I spent a number of years at IBM looking at acquisitions. And what tended to happen there is, you go in, you buy the company, you'd integrate the product and you basically, the people who sold it, all they wanted was top dollar so they could go and build something else that maybe IBM would buy later. In the case of most of the acquisitions we do, a lot of the people who are owners and sellers expect to continue to operate in those markets post acquisition.

So while price is important, the ability to bring clearing capabilities to the table, the ability to bring global distribution of your platform to the table, the ability to bring technology innovation to the table – all those things matter, because the day they get the check for the deal that's been done, the very next day they are back in those markets trading and they want to know that they have got a good market operator. So, as opposed to others who could write a bigger check, we feel like we're better innovators and we're better market operators and that's an advantage that we think differentiates us in any deal.

<Q – Niamh Alexander – Keefe, Bruyette & Woods, Inc.>: That's real helpful. Thank you.

Operator: Our next question comes from Brian Bedell with ISI Group.

<A – Jeffrey Sprecher – IntercontinentalExchange, Inc.>: Good morning.

<Q – Brian Bedell – International Strategy & Investment Group, Inc.>: Jeff, could you comment a little bit more on the Brent/WTI market share? Your share is now pretty close to 50% of the crude oil market, if you just look at those two contracts up from about 30% a little over a year ago. If you can talk about sort of the near and intermediate term direction of where you think that might go, given the Seaway Pipeline and the potential narrowing of the spread? And also, how high frequency trading plays a role at – I believe the WTI contract is a little bit more – has more algorithmic participation versus the more commercially used Brent.

<A – Jeffrey Sprecher – IntercontinentalExchange, Inc.>: Sure. Those are very good questions and they're things that we think about here. Last month, may have actually been a tipping point in the Brent/TI world. We saw Brent really out trade WTI at our competitor for the first time on a sustained basis. We have seen the ultimate end user, the hedger continually moving towards Brent. We've obviously been targeting them with marketing, we have for years but it's really been paying dividends in the last year or so. And there was no options market on Brent, for example, a year ago and today we have over 1 million open interest in Brent options.

We have – I have for years been saying, we've been building options trading technology. We rolled that out in earnest about the beginning of this year and the results are amazing. And so, it's pulling that portion of oil trading away from WTI to Brent. We benefit by having Brent and WTI in one clearinghouse for those people to trade the Brent/TI spread. That trade has been broken for quite some time. You've got to have big goals if you are going to be trading the Brent/TI spread because that can move against you very, very quickly.

I think the reversal of the pipeline will help bring that spread back into some sense of normalcy, but the pipeline does not have the capacity in it to really bring that market back into what was historical norms. So, we expect significant volatility and we are not sure that we are going to see a lot of Brent/TI spread traders come back into that market. We'll see, but it's not our expectation. If it does, it will benefit us, but Brent is just growing on its own and one of the lessons that you can see with respect to algorithmic trading in looking at other markets is that algorithmic traders trading against algorithmic traders is a zero-sum game and eventually they get tired of losing money to each other and they go away and so as you move the ultimate users out of a market, algorithmic traders eventually leave as well and so we have never built a business that is dependent on algorithmic trading.

We never thought that selling colocation services was a good long, sustainable market. It's important that we allow colocation and we facilitate it but trying to profit from it, we've never believed in. I don't believe in selling technology services to algorithmic traders. I believe that they are going to go on into the world and find the best and in many cases develop their own, and so those are just areas that we have avoided that some of our competitors have not and I think you see the difference in our growth right now. And lastly, Chuck Vice who sits quietly next to me in each of these earnings calls has a team of people that study our markets and we watch how the markets operate and we put ourselves in the shoes of a customer that was in the market and we want to make sure that people have a good experience. So we have introduced algorithmic trading all across our markets but we've done so in a very thoughtful way, in a way that the algos can make money, but also actually provide true liquidity that the ultimate hedger will benefit from and that mix seems to be driving – continues to drive people into our markets. So I'm quite proud of the work that Chuck and his colleagues have done.

<Q – Brian Bedell – International Strategy & Investment Group, Inc.>: Great.

<A – Jeffrey Sprecher – IntercontinentalExchange, Inc.>: I think that work will be adopted in other markets over time, because it is working.

<Q – Brian Bedell – International Strategy & Investment Group, Inc.>: Great. Thanks, those are very helpful comments on that. Maybe just my follow-up on capital allocation. Obviously, if some – a large deal doesn't come through and you alluded to a number of other potential smaller acquisition opportunities given pricing, maybe if you could just talk about how you would view that against potentially establishing a dividend. It sounds of course as a growth company that might be off the table, maybe if you can just sort of confirm that for now? And then in terms of organic

Copyright © 2001-2012 CallStreet

initiatives, how should we be thinking about ICE potentially at some point in the future entering interest rate swap clearing? Thanks.

<A – Jeffrey Sprecher – IntercontinentalExchange, Inc.>: Two tough questions. The – first of all, on the return of capital, I think as the company – the company does do share buybacks. We don't view share buybacks at any price as a return of capital and buying your stock at a price above where it trades, looks like a disruption of capital to me. So we are thoughtful about the way we return capital through share buybacks and we run our own stock through our own models and we make the assumption that we're buying our own stock like we would buy any other company's stock.

And so we look for when it is mispriced to the down side, and it does from time-to-time as you know because it is a market. We haven't crossed the bridge yet of how and when we'll return additional capital. I think we can – we visit this topic at every board meeting that we have but as long as we continue to see opportunities to reinvest at significant rates, our large shareholders who we have a very good dialog with have told us that they would – if we can find those opportunities, they will support us in those opportunities, and so we continue to look for them.

In terms of interest rate clearing, there's a lot of competition in that space, obviously you see the London Clearing House with IDCG doing a deal to bolster their U.S. clearing presence and there are other competitors in that space and generally the rates that people are paying for clearing are quite low. So it is a large asset class, but a lot of competition at very low rates at this point in time. It's not clear yet whether or not the market wants a multi-asset class clearing facility. We have seen that in the initiatives that we've done, that large clearing firms prefer to have separated default funds and they don't want these things commingled.

So the market has been willing and wanting to pay more to create circuit breakers between asset classes and as we go back to Niamh's question about clearinghouses and I think you're going to see, as the systemically important issues roll through in the U.S and the Bank of England is looking at similar kind of things in the UK – the whole treasury area and how you prevent this stuff from being contagious is going to be a focus and so we're trying to build our clearing infrastructure on a asset class by asset class basis with different rules, different funds, different risk models, different risk members and cordon them off as best we can.

<Q – Brian Bedell – International Strategy & Investment Group, Inc.>: Okay. Great, thanks very much.

<A – Jeffrey Sprecher – IntercontinentalExchange, Inc.>: Thank you.

Operator: Our next comes from Ken Worthington with JPMorgan.

<Q – Kenneth Worthington – JPMorgan Securities LLC>: Hi, good morning.

<A – Jeffrey Sprecher – IntercontinentalExchange, Inc.>: Morning.

<Q – Kenneth Worthington – JPMorgan Securities LLC>: I want to just follow up on I think Rich's question at the beginning on the OTC business in April. I wanted really more flavor on OTC power and OTC oil activity. Gas volumes still seem good in April, obviously not as good as January and February, but it would suggest that power and oil have fallen off somewhat. So, what's happening in those products, maybe not just in April but what's the trend and why?

<A – Scott Hill – IntercontinentalExchange, Inc.>: Yeah, Ken, I think we continue to see the oil performance be pretty good. Power has been soft and frankly remains soft today. We've seen decent volume growth, but it's really been more of a shift into some of the mini contracts that are trading that's driving that volume growth. We've seen decent uptake across all the product and options activity, which has been good. Natural gas is okay, the growth in April was modest, up a little bit versus last year. And again, I think it's not dissimilar than the contributions you saw in the first quarter. Natural gas contributed a little bit, but its growth was a bit slower.

Oil contributed a little bit and power remains soft. So I don't think we really saw anything in April that's all that different than what we saw in the first quarter, other than what Jeff alluded to, the massive shift in the paradigm of natural gas prices and people resetting their positions. I mean the one good thing we haven't talked about that we did see in the first quarter in addition to the growth was a significant build in open interest. And so, despite the fact that April was a little bit slower with not a whole lot of big price movements on the upside, we do have customers who have re-established very meaningful open interest positions at these new lower prices.

And so, to the extent, you do start to see weather events or other things that create volatility, there are large risk positions that are on that people need to trade around. So I feel pretty good about where natural gas is headed in April directly to your question. I don't think the dynamics were all that different than what we saw in the first quarter, other than the big slowdown in nat gas.

<Q – Kenneth Worthington – JPMorgan Securities LLC>: Great. Thank you. And just on market data, I think you had exchange fees went up from $65 to $75 per user per month. How much capacity is there for more of this type of increase? And I don't know if you give this out, but I'll ask it anyway. Screen count – where does screen count stand today versus a year ago?

<A – Scott Hill – IntercontinentalExchange, Inc.>: Screen count, Ken – we don't put it out. So I can't give you a specific number, but I've talked about it trend wise a number of times and if I look at the screen count today, it's up from where it was a year ago. It's up significantly from when I started five years ago and it's been a steady trend. As the economic cycle dipped, screen count continued to grow. You guys know in your firms, the first thing people do or at least I used to do at IBM and still do here at ICE, when times get tough, it's get rid of your Bloomberg screen; get rid of your Reuters screen. I'm sure that mandate is going out with regards to your ICE screens and it doesn't happen. We do see attrition, but we see growth that offsets it. So screens are higher than they were a year ago, screens are higher than they were two years ago, three years ago and it's been a steady uptick.

So our expectation as I said earlier, is that market data revenues will continue to perform well. In terms of what capacity we have for price increases, that all relates to what's the customer demand level, what are the new offerings we can introduce into our data packages, et cetera. So we are pricing to what the market wants in terms of the product. So I would be reluctant to try and guess at what and when the next price increase might be, but I think again you've seen – you talked about $65 going to $75, $55 went to $65. So we consistently look to make sure that the price is reflective of the customer demand and the quality of the product that we are selling.

<Q – Kenneth Worthington – JPMorgan Securities LLC>: Okay. Thank you very much.

Operator: Our next question comes from Michael Carrier with Deutsche Bank.

<Q – Michael Carrier – Deutsche Bank Securities, Inc.>: Thanks, guys.

<A – Scott Hill – IntercontinentalExchange, Inc.>: Good morning.

<Q – Michael Carrier – Deutsche Bank Securities, Inc.>: Just one on the expenses. Just in terms of the acquisition-related costs, is it more – meaning in terms of that line item and having the expense this quarter, next quarter, like should it be ongoing, meaning that it's a core piece of the business or is it just currently, you are doing a lot more in that area versus what you did historically and maybe it was in other G&A, and so you're trying to break that out. Just trying to get a sense on

FACTSET:callstreet
corrected transcript

– I know you're trying to say that it is core, but is it just at an elevated level currently versus kind of the long-term run rate?

<A – Scott Hill – IntercontinentalExchange, Inc.>: I think fundamentally what it gets down to is, we have consistently said that M&A is a part of the growth strategy that we've got. It's not a strategy. M&A is not a strategy, but is a part of how we expect to grow. And so, for us to exclude, what I'll call, core M&A type spending whether it's legal fees or banker fees or things like that, that's just a part of the business. When you're an acquirer, you're going to spend money on lawyers to write deals. You're going to spend money on accounting firms to do diligence. And that's simply a fundamental part of our expense. What we will continue to do is note on a non-GAAP basis, any large single charges that are made.

So for example, as you guys know, a lot of times the banking agreements are single success fees. And so, if we've got a $2 million or $5 million or $8 million success fee similar to what we did around Cetip last year or a single one-off large fee for a banking line, similar to what we had around the NYX deal last year, we'll continue to point those out because those are unusual. They are not reflective of the run rate in the core business.

But the overall M&A business, it's just – it's something we do. And so to continue to pull that out and say, don't look at that, don't pay attention to that, frankly, I think would be a bit disingenuous. So what we're trying to do is give you a fair reflection of what we believe the core expenses are that support our ability to grow the top line. These M&A expenses are a part of that. And you all know, with those expenses included, 62% margins and 67% margins if you pull the brokerage business out. So it's a part of the core expenses. It is a bit of a change, but I think it's a change more reflective of the business we manage.

<Q – Michael Carrier – Deutsche Bank Securities, Inc.>: Okay and then just on the U.S. business on the Ag products, the pricing change at the beginning of the year, I guess, one, is pushback. It seems like you're gaining traction in terms of new products, probably not, but did that go as expected and anything on the horizon there?

<A – Scott Hill – IntercontinentalExchange, Inc.>: Yes, there was almost literally no pushback at all. And I think that there really are three primary reasons for that. Number one, with the price increase, we're still very competitive with any other exchange, similar exchange traded products out there. So, it was really a change that got us more in line, did not take us above where our competitors are. I think the second reason there wasn't a lot of pushback is because I do believe that people that trade the Ag products on NYBOT do look back at where they were five years ago and where they are today and recognize better clearing technology, better clearing services, better trading technology, the fact that an electronic option exists five years later, it's something that they value.

So, I think they do recognize that those improvements along with some of the additional compliance cost that we're incurring, it's not unreasonable to look at price increases. And then I think the third factor, if you think about why the price increase, I think resonates with people is frankly the product offering that we have, the customer relationships we have and the commercial nature of those customers, what they want are deep liquid markets.

And when we create product offerings, better technology that makes the bid/offer tighter, that makes the liquidity pools deeper, that adds in options trading on an electronic basis, those commercial customers are trading in a market that is better for them. And so again, I think they are relatively as sanguine as any customer is about a price increase – willing to accept that price increase. So no meaningful push back at all and I think largely because of the reasons I just mentioned.

<Q – Michael Carrier – Deutsche Bank Securities, Inc.>: Okay. Thanks a lot.

Operator: Our next question comes from Jillian Miller with BMO Capital Markets.

<Q – Jillian Miller – BMO Capital Markets (United States)>: Hey guys, thanks for taking my question. I know I buzzed in a little late here, but the agreement to partner with Cetip to create the OTC fixed income trading venue – I just wanted to get a little more color on what's the targeted customer base there? Is it dealer-to-client, dealer-to-dealer or some kind of combination? What kind of void are you filling in the market? And then maybe you can give us an idea for how the partnership's working financially? I think you alluded to this earlier, but I assume the technology licensing you're going to have some kind of profit sharing or some way you can actually benefit from increases in activity levels on the platform?

<A – Jeffrey Sprecher – IntercontinentalExchange, Inc.>: Yes, so we haven't put out any – really disclosed any information with regards to the financial terms of the deal, Jillian. So, I'd be reluctant to put that out now, suffice it to say that the deal structure will not be dissimilar than others that you've seen where we've done ventures with other firms to build platform – platforms and provide technology. In terms of the market opportunity, there is not really in Brazil any meaningful platform for the electronic trading of fixed income instruments, but there is a desire by the customers in Brazil for that opportunity. So we've had as you would expect before we go into any initiative a number of conversations with customers in Brazil.

One of the reasons we made the investment in Cetip and got onto the board is because we wanted to build the relationships with the banks and other large local customers in Brazil. We've done that and as we've done that, in that dialog, particularly Dave Goone who is our Chief Strategic Officer and who is a board member on Cetip, he sat with each of those banks on a number of occasions and one of the consistent themes that we've heard is, we would like a more efficient way to trade fixed income instruments.

There are other competitors who are trying to move into Brazil and do that, who are focused more on the client side, which is important, but it's not where the real depth in the market is today. The real depth in the market is among similar – not dissimilar to most other markets, the large financial institutions, the large banks. And those customers are telling us that they think an electronic platform is important and necessary. They look at the electronic platform we run for Creditex. They look at our bond platform that we've got. And we frankly were a natural partner to come down and develop that along with Cetip. So I would characterize the demand as being the large financial institutions and banks where the vast majority of those products trade today, looking for a – not again dissimilar than a lot of markets we have entered – looking for a more efficient means of trading. And the platform we will build for them will create that more efficient opportunity for them to trade.

<Q – Jillian Miller – BMO Capital Markets (United States)>: Okay, thanks, that's helpful. And then the FX OTC, you said that one of the reasons why you are not kind of jumping into the interest rate swap clearing is because it's very competitive, but just seems to me like kind of the same players are going into FX. You've seen CME and LCH both kind of making moves there. So I guess I'm wondering what's different in the FX market? Why do you think you have a competitive advantage there or there is I guess a better opportunity for you there?

<A – Jeffrey Sprecher – IntercontinentalExchange, Inc.>: I think, the reason is we have ten of the largest players who have made a commitment to use our platform. So it was kind of – once we – once that was agreed, it became a bit of a no-brainer and not only did they agree to use the platform, they gave us broad access to technology people and back-office people to design an infrastructure that works for the way they trade and makes it easy to get these trades into a clearinghouse. The – and I think I will just leave it at that. We tend not to believe in a field of dreams and build it and hope they will come. We tend to try to work with customers and find out what their real needs are and then work with them to build something that we know they'll need and in the case of FX clearing, we really feel very good about the offering that we've designed.

<Q – Jillian Miller – BMO Capital Markets (United States)>: Okay. Makes sense. Thanks, guys.

Operator: The next question comes from Rob Rutschow with CLSA.

<Q – Rob Rutschow – Credit Agricole Securities (USA), Inc.>: Hey, good morning, guys. Thanks for taking my question.

<A – Jeffrey Sprecher – IntercontinentalExchange, Inc.>: Good morning.

<A – Scott Hill – IntercontinentalExchange, Inc.>: Good morning.

<Q – Rob Rutschow – Credit Agricole Securities (USA), Inc.>: I guess I had a couple questions on OTC. First, I think one of your brokers that trades OTC products suggested that you saw better trading in OTC power options this quarter. I think the [ph] end (79:48) has been sort of sluggish since the previous quarter. So wondering if you could confirm that? And then second, the percentage that you're returning to your customers in terms of rebates on the OTC side has increased from around 20% last year in the first quarter to close to 40% this quarter. So, is the rebate a function of volume and revenue? So as volume and revenue go up, so does the rebate percentage or should we think about that as kind of a one-off where you're looking to drive adoption in some new products? Thanks.

<A – Scott Hill – IntercontinentalExchange, Inc.>: Let me start with the rebate part of the question and then maybe we can talk a little bit about the new options. From a rebate standpoint, you shouldn't expect that the percentage will go up because volumes and revenue go up. Typically, what drives the rebate percentage up is really one of two things. One is you get into a particularly volatile period. In that volatility, you tend to see more market makers move into the markets, which drive the rebate percentage higher. Unfortunately for power, that hasn't been the case. We haven't seen a lot of volatility in those markets.

The other time that you tend to see in the OTC markets and really the futures markets as well, the market maker percentages increase is when you're really trying to get new products launched, whether it's options or any sort of new product, you need to get market makers in those markets early making markets. To Jeff's point, if two months, three months, eight months later, it's only market makers, those markets don't survive, but in early days if you want to get liquidity growing, you need to go get those market makers in.

And so what I think you're seeing a little bit is as we establish more new markets in OTC, particularly around options, we're trying to bring more market makers in to get the liquidity building. As that liquidity builds, it attracts commercials, who may be trading a different product that's somewhat less correlated or slightly different. And then they start to see the depth of liquidity in the new product and decide, okay, that the bid/offer is tight enough, the liquidity is deep enough. I now want to move into those markets.

So over time, I think you'll see that normalize. Over longer periods, the rebate percentage ought to stay relatively constant, but again as we're developing new markets, you do on occasion to see it tick up a little bit more. With regards to options, as Jeff alluded to, that's been a key strategy for us, over the past really three years. And we bought the YellowJacket back in 2009 and when we did that deal, we announced that the real driver behind it was, we did not believe anyone in our space had come up with a great way of enabling trading for options electronically.

As we sit here today, that's no longer the case. We've announced a number of new options products in power, in gas, in oil, on the futures side, on the OTC side and on the Ag side. And all of

 Copyright © 2001-2012 CallStreet

FACTSET: callstreet
corrected transcript

that's been enabled by the investments that we've made in technology. So you do see an industry typically in less volatile maybe lower liquidity times trade a bit more on the options side and again I think that's what you're seeing in power right now. New products, better technology, maybe a little less volatile market and that's helping the overall the options volume on the power side.

<Q – Rob Rutschow – Credit Agricole Securities (USA), Inc.>: Thank you.

Operator: And I'm not showing any further questions at this time. I would like to turn the conference back over to ICE for closing remarks.

Jeffrey C. Sprecher, Chairman & Chief Executive Officer

Thank you, operator. And I guess I hope this call helps clarify the ways in which we've grown last quarter and outlined some of the initiatives we have that are going to allow us to continue to grow in the future. We'll look forward to hearing from you throughout the quarter and we'll update you on our progress as we go and thank you all for joining us today.

Operator: Ladies and gentlemen, this does conclude today's presentation. You may now disconnect and have a wonderful day.

Disclaimer
The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2012. CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.

FACTSET:callstreet corrected transcript